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AT DEADLINE

3 to meet with Exxon exec

Leaders of three activist public funds, all large Exxon Corp. stockholders, will meet with Exxon chief executive Lawrence Rawl April 4 to discuss the company's environmental record.

The three are Elizabeth Holtzman, New York City comptroller; Gray Davis, California comptroller; and Paul Quirk, executive director of the Massachusetts Pensions Reserve Investment Management Board. The funds own a total of more than 14.5 billion Exxon shares.

Watergate Hotel sale set

The $20 billion British Coal PLC pension fund has reached a tentative agreement to sell Washington's famous Watergate Hotel, reportedly to Trusthouse Forte PLC, a British hotel and catering company.

Paul Whitney, chief executive of CIN Management Ltd., the British Coal subsidiary overseeing the pension fund, confirmed the agreement had been reached but declined to name the buyer or state the price. A Trusthouse Forte official said the reports correctly named all the bidders, but nothing has been finalized.

Homart, Yarmouth do REIT

Homart Institutional Partners — a joint venture between Homart Development and The Yarmouth Group — will try to raise $700 million from domestic and foreign institutional investors for a private placement real estate investment trust composed of Homart portfolio properties.

Funds announce hirings

Two companies hired equity managers for pension and foundation assets.

The $960 million Fluor Corp. pension fund hired GeoCapital Corp. to run a $25 million account. The hire represents the Irvine, Calif.-based fund's first move into small-cap equities.

The Rehabilitation Institute of Chicago hired Cedar Hill Associates Inc. to manage $12 million in equities for its $36 million in foundation and pension assets.

Merger called off

CSX Corp. and Richmond, Fredericksburg and Potomac Railroad Co. terminated plans to merge the two Richmond-based companies, ending a four-week controversy over whether the $385 million deal made sound investment sense. The controversy led to the early retirement of Charles B. Walker as chairman of the $10.2 billion Virginia State Retirement System, which has a 20% stake in RF&P.

LOR exec to join Goldman

Girish V. Reddy, former senior vice president of Los Angeles-based Leland O'Brien Rubinstein Associates Inc. will join Goldman, Sachs & Co.'s global equity derivative products group in London as a vice president and head of research.

Short-term gains tax is squelched

Controversial bill may be replaced by other measures

By Joel Chernoff

WASHINGTON — A hotly contested bill to tax short-term gains of pension funds appears to be derailed, but pension executives shouldn't pop the cork yet.

A cool reception to the tax by Treasury Secretary Nicholas F. Brady and admissions by the sponsors of the bill — Kansas Republicans Nancy Kassebaum and Robert Dole — that they were willing to look at other measures, pretty much spells the legislation's end, at least for this year.

But other signs indicate that won't be the last word on the issue of discouraging short-term trading practices by institutional investors — or, conversely, of encouraging them to expand their role as long-term owners of U.S. corporations.

At a March 21 Senate Finance Committee hearing, Mr. Brady praised the objective of encouraging long-term investing, although he is opposed to using the tax system to arm-twist investors except "as a last resort." He also said further clarification of the 1974 Employee Retirement Income Security Act might be needed.

"Perhaps we should apply ERISA rules to make clear that the fiduciary duty to maximize return for fund beneficiaries is best achieved by long-term investing, not short-term trading," he said.

Last year, the Treasury and Labor departments tried to jawbone pension executives into taking a longer-term outlook, saying funds are not obligated to sell their shares when facing a tender offer if they think values can be maximized by current management or in some other fashion.

The results of that policy statement have been disappointing, Mr. Brady said, and officials from the two departments will resume discussions on how to give pension fund managers "more conviction, courage and legal authority" to turn down takeovers

See **Kassebaum** *on page 51*

Sen. Nancy Kassebaum's bill may have to wait until next year.

Film star Kim Basinger has cast the $14.3 billion Ameritech pension fund in a supporting role for her development plans in Braselton, Ga., 40 miles northeast of Atlanta.

Ameritech co-stars in Basinger deal

By Terry Williams

The envelope, please.

And the Oscar for the best supporting actor goes to: The Ameritech pension fund for its performance opposite Kim Basinger in Braselton, Ga.

Actually, the relationship between the glamorous film actress, who has starred with such leading men as Mickey Rourke and Michael Keaton, and the pension fund is just a business one.

The pension fund is an investor in the $20 million Braselton/Basinger Limited Partnership, which is considering building an entertainment complex and undertaking restoration of the buildings in Braselton, a town of 500.

Ms. Basinger — who has performed in 14 motion pictures, including "The Natural," "9½ Weeks" and "Batman" — earlier this year announced the partnership paid $20 million for about 1,700 acres that included more than 50 buildings — many with ongoing small businesses — a 671-acre industrial park and 500 acres of potential residential land.

Steve Ford, a spokesman for American Information Technologies Corp., Chicago, confirmed the $14.3 billion pension fund is a limited partner in the Braselton/Basinger partnership. He declined

See **Basinger** *on page 52*

Foreigners invade U.S. paper market

By Marlene Givant Star

The recent climb overseas of long-term interest rates and banks' temperance about making bridge loans are spurring foreign companies to use commercial paper programs as temporary financing for U.S. acquisitions.

The foreign share of total commercial paper outstanding of nonfinancial corporations in the United States rose to 15.2% as of Dec. 31, from 11.3% as of Sept. 30, according to Merrill Lynch Capital Markets. As the yield curve has steepened in the past three months, commercial paper issued by non-financial corporations has soared (on an annualized basis) nearly 36%, to almost $140.3 billion March 7 from $125.4 billion Nov. 8 on a seasonally adjusted basis, according to Merrill Lynch.

The climb in interest rates in Japan to support the falling yen and the United Kingdom's long-time high interest rate climate have domestic companies in both countries looking to the $500 billion, highly liquid U.S. commercial paper market as the cheapest way to finance acquisitions. The companies typically launch commercial paper programs under the Securities and Exchange Commission's 4(2) designation, which is for acquisition finance and to pay down the paper soon after, refinancing it with longer-term debt or other short-term funding when a rate window occurs.

Sony Corp.'s acquisition of Columbia Pictures Entertainment Co. last autumn represented the first time it used U.S. commercial paper for an acquisition.

British Petroleum Co. PLC, London, has used U.S. commercial paper to finance acquisitions in the United States as well as abroad, and Grand Metropolitan PLC, London, recently used commercial paper to finance its Pillsbury Co. acquisition.

"The Japanese have always been active in U.S. commercial paper, but activity has increased as U.S. (mergers and acquisitions have) increased in the past 18 months," said Ted Roosevelt IV, managing director at Shearson Lehman Hutton Inc. He said Shearson is working with a large number of U.K. and some continental Europe companies planning U.S. acquisitions, which should result in increased paper programs.

Foreign companies also are turning to the commercial paper market because commercial banks, trying to control their balance sheets' highly leveraged transaction exposure, now are re-

See **Paper** *on page 49*

Grand Met's purchase of Pillsbury was financed with U.S. commercial paper borrowings.

NEWS DIGEST

The retirement of Peter Lynch is not expected to harm Fidelity or its Magellan megafund. Page 4.

Turner Neill Investment Partners, a new money management firm started by former executives of Meridian Investment Co., is gaining its first batch of clients. Page 6.

Labor Department proposals to toughen enforcement of ERISA would expose employers to increased liability and shift some policing to the private sector. Page 11.

The Rhode Island Retirement System joins a growing list of public pension plans financing economic development in their home state. Page 42.

A barrage of tax laws enacted in the 1980s has made pension administration unwieldy and costly, pension experts claim. Page 54.

Some activist public funds are catching heat from other public fund officials, a Los Angeles County administrator claims. Page 54.

The State of Connecticut Trust Funds has become part owner of the Colt firearms division. Page 55.

The California Public Employees' Retirement System is ready to help reshape corporate America with $1 billion. Page 55.

SPECIAL REPORT: EMPLOYEE BENEFITS

The ever-changing landscape in the employee benefits area is the subject of an in-depth report by *Pensions & Investments*. Page 21.

FINANCING

Foreign companies are turning to commercial paper for temporary financing of U.S. acquisitions. Page 1.

Innovative derivative products from chic country markets are being created by Wall Street to tempt institutional investors. Page 10.

Wolverine Exploration Co. is coming to market with a $40 million stock issue to redeem notes and finance an aggressive energy exploration program. Page 34.

INTERNATIONAL

British Coal is putting a fine brush to its venture capital efforts in the United Kingdom, in Europe and in the United States. Page 8.

Swiss-based CIBA-GEIGY A.G. is opening its registered shares to foreigners to makes its stock more attractive to investors outside Switzerland. Page 38.

The Group of Thirty's plan to speed international settlement and clearance seems to be working. Page 44.

REAL ESTATE

Two pension funds are reducing real estate partnership interests with Grosvenor International Holdings. Page 2.

The First Wachovia Real Estate fund, hit by a number of withdrawals, is changing its strategy. Page 32.

The rate of Japanese investment in big U.S. office buildings is dropping, in part because American institutional investors are coming up with more cash. Page 36.

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2 funds cash in on real estate

Grosvenor partners selling interests

By Steve Hemmerick

The Teachers Insurance and Annuity Association has decided to take some of its profits out of the coveted Honolulu property market, and the Grand Metropolitan PLC pension fund is selling its shares in two Canadian-based partnerships to reduce its pension fund's allocation to real estate.

Both TIAA's and Grand Metropolitan's affected investments are, coincidentally, in partnership interests with Grosvenor International Holdings Ltd., Vancouver, British Columbia, an international real estate adviser and co-investor.

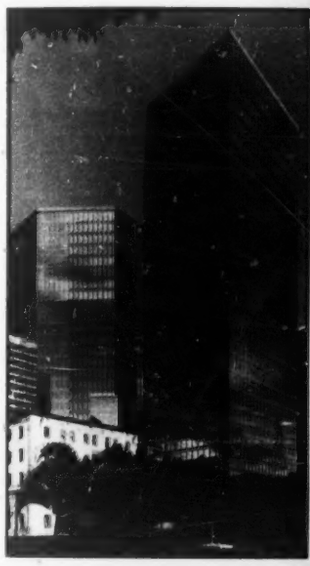
TIAA, New York, with $81 billion in assets, is selling its 80% interest in the Grosvenor Center, two 30-story office towers with 620,000 square feet of space in Honolulu, to a Japanese investor. Grosvenor retains its 20% interest in the two buildings.

The selling price was not announced, but the compound annual return on the approximately 8-year-old investment for TIAA will be in "excess of 20%," according to Alan Lang, a real estate investment officer with the pension fund.

TIAA is selling at a time when Honolulu should be one of the five fastest rising markets in the United States during the next five years, according to Jack Barthell, a managing partner in the consulting division of Kenneth Leventhal & Co., Los Angeles. While prices could go higher for Honolulu real estate, it still could be a good time for a pension fund to sell in Honolulu, said Mr. Barthell. The sell decision would have to depend partly on the cash needs of a pension fund and the current value of a property in the marketplace, he said.

In addition, he said, clearly the current real estate market in Honolulu is liquid because of the desire of investors worldwide to

See **Grosvenor** *on page 53*



TIAA is selling its 80% stake in Grosvenor Center.

Quant expert goes to manager

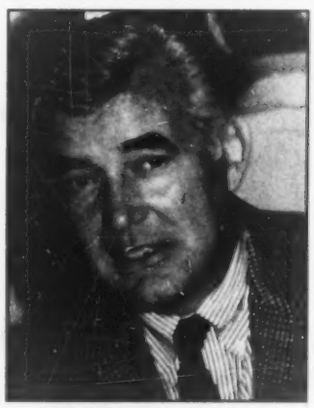
Dorian takes jump to First Quadrant

By Curtis Vosti and Barry B. Burr

John L. Dorian, the statistician who achieved skyrocketing performance running the in-house core equity portfolio of General Dynamics Corp.'s pension fund, left the St. Louis-based defense contractor to join First Quadrant Corp. as a managing director.

First Quadrant, based in Morristown, N.J., is best known for its tactical asset allocation models, and is trying to become better known for quantitative strategies. It is in the latter Mr. Dorian also has earned notoriety.

Mr. Dorian, as General Dynamics' corporate director of equity investments, managed since mid-1987 an enhanced indexed portfolio he said outperformed every one of the $3.9 billion General Dynamics defined benefit fund's 10 outside equity managers and the Standard & Poor's 500 Stock Index. From July 1, 1987, through Dec. 31, 1989, the latest date for which performance is available, he said the in-house portfolio beat the S&P 500's cumulative return of 26.7% by a cumulative 290 basis points.



John Dorian has joined money manager First Quadrant.

Charles D. Walbrandt, GD's staff vice president, confirmed the superior performance of the portfolio and said, "John's a big loss. We'll miss him."

The portfolio, which began with $100 million, has grown through performance and additional funding to $490 million, now accounting for virtually all of General Dynamics' internally run equities and one-third of its total $1.37 billion equity allocation.

Although the resignation was unexpected, Mr. Walbrandt said Mr. Dorian is leaving on amicable terms. He said the new position is a good opportunity for Mr. Dorian.

A successor to Mr. Dorian, who makes his transition between jobs this week, hasn't been named. "We may look internally or externally," Mr. Walbrandt said, adding "Mr. Dorian has a very capable assistant (Bruce Dirks, corporate manager of equity investments) who worked with him. I would feel comfortable giving him a shot at running the portfolio."

Mr. Walbrandt said General Dynamics will maintain the portfolio. "It could go for 60 to 90 days without being rebalanced."

"It's a very disciplined approach," Mr. Dorian said. "Without any further enhancements, I think it will continue to be powerful for a while.

"(Mr. Dirks) has all the skill and technology necessary to continue to maintain the portfolio."

Robert D. Arnott, First Quadrant president and chief investment officer, said he had been trying for several years to hire Mr. Dorian.

See **Dorian** *on page 50*

Cash flow gains new respect

By Fred Williams

Corporate financial executives are turning their attention to cash flow forecasting in an effort to cut costs and tap new sources of funding.

Cash flow forecasting is taking on added importance in many companies looking to increase overall efficiency and as chief financial officers look to cash management as a cheap source of internally generated funding.

"Corporations are beginning to make more efficient use of internally generated cash flows; corporate America has become more lean and mean, cutting back on overhead and tipping the operating leverage in their favor. As they begin to tip the operating balance, they are looking at internal efficiencies. Internally generated funds is one way they are doing it," said Michael Rohm, former assistant treasurer at Entergy Corp., New Orleans, and now senior vice president at JMC Capital Management Inc., Metarie, La.

"What you earn in a slow growth economy, as we have now, goes to cash management. It can be used to finance continued growth of the company from internally generated sources and internally generated funds are what cash managers are responsible for," said Mr. Rohm.

Michael Rohm

From a corporate stand point, cash flow forecasting involves the prediction of corporate cash receipts and disbursements and resulting balances over short time horizons — from one day to

See **Forecasting** *on page 53*

PEOPLE

Terry lured away from Bay Area

■ Thomas D. Terry, the Treasury Department's first benefits legislative counsel, has left his heart in San Francisco.

The well-respected and likable Mr. Terry started his new job February 26. His family remains in the Bay Area, but the draw of helping set the government's benefits policy after 22 years in private practice was too tempting.

"My wife made me sign a pledge" to travel between Washington and his home in Marin County, explained the 55-year-old tax attorney, who left his partnership at the San Francisco law firm of Morrison & Foerster.

In the newly created post of top benefits adviser to Ken Gideon, assistant secretary for tax policy, Mr. Terry hopes to simplify rules governing employee benefit plans. For starters, he will focus on the IRS' complex non-discrimination rules, as well as easing taxation of distribution rules, and promoting the Bush administration's proposals modifying individual retirement accounts and creating family savings accounts.

Photo by Tom Reed

Thomas Terry will be a frequent Washington-San Francisco flier.

CASH MANAGEMENT

Delivery standards could be costly

■ After years of consolidating lockbox networks, cash managers may be forced to add lockbox sites to cope with anticipated delays resulting from the revised mail delivery standards proposal.

The proposal is scheduled to be phased in starting this summer.

A survey by consultants Phoenix-Hecht found a 6.4-hour increase in the average time locally originated mail takes to reach New York City bank lockboxes.

The American Bankers Association has warned the revised delivery standards for several major lockbox cities could cost wholesale lockbox customers as much as $1 billion annually.

"If . . . mail arrives just three or four hours later than it does currently, the lockbox may miss check-clearing deadlines and consequently a full day's interest on funds represented by the checks," said Richard M. Nelson, a member of the ABA's postal service committee.

In a pilot program in the New York City area, cities in Westchester, Long Island, southern Connecticut and parts of New Jersey were changed from overnight to two-day delivery. One-day delivery time was retained within the city.

"This represents a 17% increase in mail time. We're in for some change in the lockbox business, if this is the first indication," said Jack Meckler, Phoenix-Hecht's president.

REAL ESTATE

Met fund to de-emphasize offices

■ Concerned about the future performance of office buildings, Metropolitan Life Insurance Co., New York, will slash the already relatively small percentage of assets in office buildings in its high-performing Tower Fund.

In 1985, the Tower Fund, an open-end, diversified, commingled real estate fund, had 28% of its assets in office buildings. Today the percentage is 24%, but in about 18 months the percentage should tumble to 17%, according to Michael J. Walker, assistant vice president of Metropolitan Life's pensions-real estate division. That 17% figure is less than half the industry standard for allocation to office buildings.

The money Metropolitan will take out of office investments will go to help boost the percentage investment in upper middle-class apartment buildings to about 23% from 10%. Some apartment vacancies are tight today, said Mr. Walker, and rents should increase.

INTERNATIONAL

SEC to aid start of foreign markets

■ The Securities and Exchange Commission is lending a hand to Eastern Bloc countries that want to set up securities markets.

Officials of the Soviet Union, Poland and Hungary recently have visited the SEC to review operations of American banking and securities markets and to discuss developing securities markets. More visits are expected.

In response, the SEC is forming an advisory committee on emerging securities markets in Eastern Europe and the Soviet Union. Among other tasks, members will help mobilize the U.S. securities industry to assist in the creation of markets and the training of market participants.

The committee will have about 24 members from government and the private sector. Members have not yet been named.

Carvel's Richard Ballantine.

PEOPLE

Job is one he'll lick his lips over

■ Did Richard Ballantine's love of ice cream make him desert Wall Street and join Carvel Inc. as its new chief financial officer?

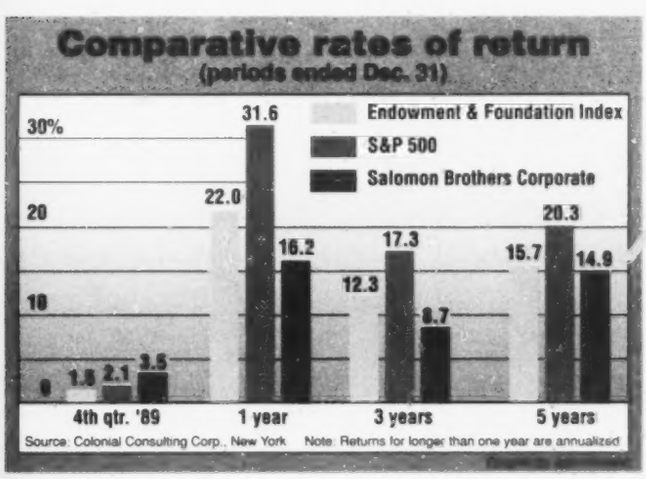
The ice cream aficionado swears that's not the reason he left the merchant banking and mergers and acquisitions departments at Salomon Brothers Inc. for the renowned Yonkers, N.Y., ice cream maker.

Ice cream, however, is "my one terrible vice," Mr. Ballantine confided. "I really do love ice cream. It's the one place I've worked where you can take something home with you at night."

His favorite flavor is vanilla. "I'm really simple," he says.

Mr. Ballantine, who was in charge of leveraged buy-out transactions at Salomon, said he was drawn to the idea of being part of a new management team.

Last November, Carvel was purchased by INVESTCORP, an international bank, and is in the process of assembling a new team and strategy. Carvel also named a new chairman and chief executive, Steven Fellingham, formerly president of Kentucky Fried Chicken USA.



INVESTING

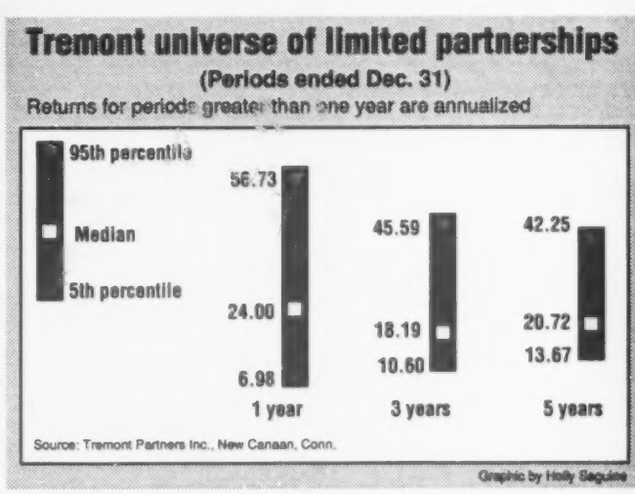
Funds trail indexes in 4th quarter

■ Endowments and foundations returned 1.5% for the fourth quarter and 22% for all of 1989, Colonial Consulting Corp. says.

Foundations, which have a mean 60% equity allocation, posted the higher returns: 1.7% for the quarter and 23.7% for the year. Endowments, with a mean equity allocation of 56%, returned 1.3% for the quarter and 20.6% for the year.

The Standard & Poor's 500 Stock Index returned 2.1% in the quarter and 31.6% for the year, while the Shearson Lehman Hutton Government/Corporate Bond Index returned 3.6% in the quarter and 14.2% for the year.

The firm's data base is composed of 25 endowments and 22 foundations.



FINANCING

Westinghouse unit enters Europe

■ As aggressive as they've been in seeking to peddle their corporate finance skills in the United States, few of the financial services arms of big U.S. companies have staked a claim in Europe yet.

But Westinghouse International Capital Ltd. took the leap by opening an office in London, its first in Europe. Martin Rees, managing director, says the firm will offer comprehensive corporate financing for leveraged acquisitions, expansions and recapitalizations of middle-market companies in Europe.

Westinghouse also will provide senior and subordinate debt and equity for the acquisition and development of commercial real estate.

In its first deal in France, Westinghouse provided $31.3 million in senior debt, subordinate debt and equity financing in the acquisition of SICLI, France's leading fire protection company. Britain's NuSwift PLC sold SICLI to an investor group arranged by France's Rothschild & Cie Banque.

The deal marks one of the few times subordinate financing has been used in the acquisition of a French company. Westinghouse provided $17.4 million in subordinate debt.

PEOPLE

Ramirez teams with Hancock for global firm

■ Maria Fiorini Ramirez, formerly managing director and money market economist at Drexel Burnham Lambert Inc., is launching an international investment management and economic consulting firm under the umbrella of John Hancock Freedom Securities Corp., Boston.

The New York firm — Maria Ramirez Capital Consultants Inc. — will provide worldwide analyses and forecasts of credit markets and consulting services on global investment strategies.

Ms. Ramirez and John H. Goldsmith, president of JHFS, will form an investment advisory arm of Ramirez Capital offering global fixed-income and equity management to institutional clients.

As part of her relationship with John Hancock, Ms. Ramirez will become an officer of the Freedom Capital Management Corp. subsidiary with responsibility for reviewing the performance of the firm's international portfolios. She also will advise the sales forces of two other Hancock subsidiaries as well as the investment banking units of JHFS.

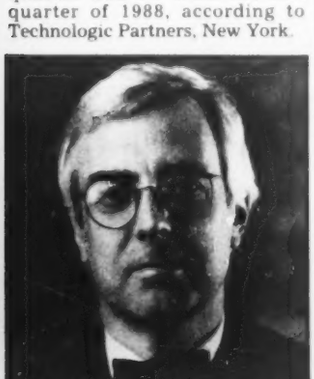
Maria Fiorini Ramirez, a former Drexel managing director and economist, is starting her own firm.

VENTURE CAPITAL

Funding misses technology firms

■ Venture capitalists' allocations to computer-related companies grew modestly in the fourth quarter, although the full-year total remained below 1988's level.

The venture community put $280 million into computer-related businesses in the fourth quarter, up 14% from the third quarter and 6% from the last quarter of 1988, according to Technologic Partners, New York.



Technologic's Richard Shaffer.

The full-year total reached $1.1 billion, 12% less than 1988's. Third-quarter funding was $252 million, a third less than in the same period in 1988.

These figures indicate a continuation of a down cycle in venture capital investing, said Richard A. Shaffer, Technologic founder and principal. Only the strongest high-tech companies are selling well when they go public, so fewer companies are going public fewer are receiving venture funding.

But technology stocks are rallying, he added.

REAL ESTATE

Equitable keeps 20% stake in tower

■ The Equitable Life Assurance Society of the United States sold for $520 million the former Paine Webber Building, 1285 Avenue of the Americas, New York, to a joint venture between Equitable and a subsidiary of Nippon Life of Tokyo.

NLI Properties, Nippon's subsidiary, has an 80% stake in the property and Equitable owns 20%, an Equitable spokesman said. Under the terms of the agreement, Equitable is the asset manager and will manage the investment for the joint venture partners.

The acquisition is the fifth real estate transaction between NLI Properties and Equitable.

The 1.7-million-square-foot, 38-story tower is part of the full-block Equitable Center complex that includes Equitable Tower.

INTERNATIONAL

Tucson to take overseas plunge

■ The $160 million Tucson, Ariz., Supplemental Retirement System has hired the Dallas office of William M. Mercer Meidinger Hansen Inc. to conduct a search for Tucson's first overseas manager.

The system plans to hire a fixed-income manager by the summer to run a $10 million portfolio, according to Tom Amparano, investment analyst. He said the system's board probably will extend the search to include an international equity manager, but has not yet done so.

An allocation study by Becker, Burke & Associates, Chicago, recommended the system put 5% to 10% of assets in both international fixed income and equities.

INVESTING

PRIM Board touts its 1989 results

too ephemeral →

■ The Pension Reserves Investment Management Board, Boston, announced its $2.9 billion trust returned 17.92% for calendar year 1989.

"This performance clearly indicates that our diversification, particularly into the international markets, is working to our best advantage," said Paul Quirk, executive director.

The firm's asset allocation at the end of 1989 had 38.3% of the

[illegible] of pension assets of participating towns, counties and public agencies in Massachusetts.

FINANCING

Earnings dip to spark borrowings

■ A 6.3% drop in after-tax corporate profits last year did not stop companies from paying dividends. That means more financing activity lies ahead.

Despite the earnings dip, nonfinancial corporations still paid out 80% of after-tax profits in the form of dividends. Dividend payouts peaked at 92% in 1986.

"Despite weak earnings, corporations continued to pay dividends, and that makes it necessary to finance investment activities by borrowing," noted a report by Merrill Lynch Capital Markets.

But borrowing costs are already at a record level as a ratio of interest expense to cash flow. In 1989, interest payments absorbed 25.1% of the cash flow of non-financial corporations, vs. 22.7% during the recession in 1974.

"The interest-payment squeeze is likely to intensify as growth of cash flow slows and short-term interest rates move only slightly higher during the first half of 1990," the report said.

Cash flow margins dropped to 15.2% in 1989 from 18% in 1985, also nearing recession levels, and Merrill expects further narrowing in the first half of this year.

Profit margins have eroded since the end of 1984, but the decline worsened in 1989, when weaker demand and greater competition prevented corporations from raising prices enough to meet rising unit labor costs.

ESOPS

Stock plans, coverage escalate

■ Employee stock ownership plans boomed in 1989, with an estimated 830 such plans established to cover a record 1.9 million workers.

The National Center for Employee Ownership, Oakland, Calif., says the number of new plans was about 10% greater than in most previous years, but the number of new covered employees was about double. That's because about 20% of the plans were set up at large public companies, including Sears, Roebuck & Co.; Xerox Corp.; Mobil Corp.; and Procter & Gamble Co. Historically, public companies accounted for only about 10% of all ESOPs.

About half of public company ESOPs have been set up in companies facing the possibility of a takeover; the remainder of the plans augment the companies' employee benefits in a more tax-effective way, according to the center.

Cumulative growth of employee ownership plans

Year	Cumulative no. of plans	Cumulative no. of employees
1975	1,601	248,000
1976	2,331	503,000
1977	3,137	1,658,000
1978	4,028	2,600,000
1979	4,551	3,039,000
1980	5,009	4,048,000
1981	5,660	4,537,000
1982	6,062	4,746,000
1983	6,456	5,397,000
1984	6,904	6,576,000
1985	7,402	7,353,000
1986	8,046	7,960,000
1987	8,777	8,980,000
1988	9,407	9,630,000
1989	10,237	11,530,000

Source: National Center for Employee Ownership Inc., Oakland, Calif.

SOUTH AFRICA

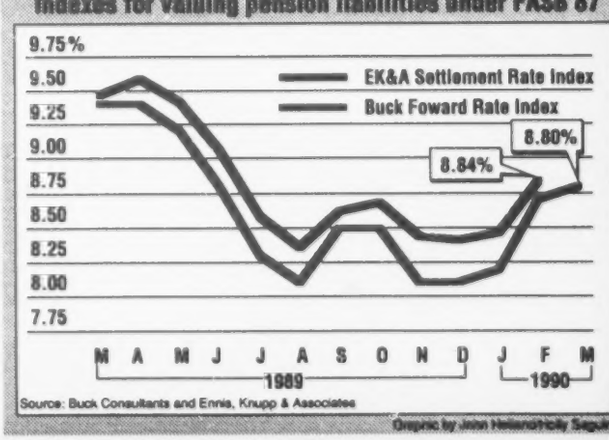
Exits counted

■ Some 201 U.S. firms have left South Africa since Jan. 1, 1984, leaving 123 with direct investment or employees there, according to the Investor Responsibility Research Center, Washington.

The British and West German presence in South Africa dwarfs the United States', with 177 British and 142 West German companies operating there. The largest U.S. employer in South Africa, Caltex Petroleum Corp., comes in 21st among all foreign employers there.

Of the 154 U.S. companies that have left South Africa since the beginning of 1986, 74 retain non-equity links, such as licensing and distribution agreements.

Indexes for valuing pension liabilities under FASB 87



Source: Buck Consultants and Ennis, Knupp & Associates

Graphic by John Hellenschiedt Segura

UMWA facing benefit cash crunch

Trusts facing $450 million deficit

By Joel Chernoff

WASHINGTON — The United Mine Workers of America retiree health funds are digging a deep financial hole and may reach a combined deficit of $450 million to $600 million by 1993, according to a new study.

What's more, the report by the Employee Benefit Research Institute, Washington, says minimal cost-sharing provisions and broad definition of beneficiaries has contributed to the benefit funds' growing deficits. But medical benefits are not more generous than those of other employers, the study found.

Dallas Salisbury, EBRI's president, said a proposed transfer of up to $200 million in surplus assets from the 1950 UMWA Pension Trust to the 1950 and 1974 health trusts might alleviate the funds' short-term financing needs, but does not address long-term financing issues.

Congress "should not add to the problem by making a special exception" for one industry, Mr. Salisbury said.

The funds already are running in the red and have delayed payment of medical claims. Their situation is highly politicized, and the study's objectivity immediately came under attack.

"We didn't pay much attention to the report because it was financed by Pittston," said Liz Rose, press secretary for Sen. Jay Rockefeller, D-W.Va., who is pushing legislation allowing the transfer of the pension surplus.

She added the proposed transfer always was meant as a short-term solution to the trusts' financial crisis.

The EBRI study was financed by a $25,000 grant from Williams & Jensen, a Washington law firm that represented Pittston Co., Greenwich, Conn., in a bitter dispute with the UMWA that was resolved earlier this year. The grant was made last fall, before Pittston and the union settled the 11-month strike of the company.

Pittston's February 1988 withdrawal from an industry bargaining agreement — and from the financially strapped health trusts — triggered the UMWA's strike.

EBRI officials deny any bias in the report. They explained they were trying to lay out public policy issues, as Congress and the 11-member Coal Commission recently named by Labor Secretary Elizabeth Dole explore long-term financing issues for the funds. The Coal Commission, which is headed by former Labor Secretary William J. Usery, is scheduled to deliver its findings in October.

Stephanie Poe, EBRI's director of communications, explained the benefits research organization often accepts grants tied to specific research projects, but the group retains total independence in conducting its research and

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The EBRI report said Mine Worker health funds could face a deficit of at least $450 million in the next few years.

Groups at odds over bill

By Hillary Durgin

WASHINGTON — Employers are rallying to head off legislation that would restore benefit plan participants' ability to sue under age-bias laws and increase substantially severance and other benefits costs.

Many employers are concerned that provisions of the legislation, S. 1511, would require them to restructure benefit packages. For example, it would prohibit employers from integrating retirement and severance benefits, with a limited exception. The increased cost burden could drive employers to cut severance, experts said.

"The great danger here is that if it looks like employers are going to have to provide duplicate benefits as a result of the . . . legislation, many more employers will simply be laid off without any severance pay, and older workers will rely on their pension benefits," said Mark Ugoretz, president of the ERISA Industry Committee, which represents 126 Fortune 200 companies.

The bill, called the Older Workers Benefit Protection Act, was introduced by Sen. Howard M. Metzenbaum, D-Ohio, and recently was approved by the Senate Labor and Human Resources Committee. It is expected to be taken up on the Senate floor before June.

The legislation is endorsed by the American Association of Retired Persons, the AFL-CIO, the United Auto Workers and the United Steelworkers of America. Business groups, such as ERIC and the Association of Private Pension and Welfare Plans, are working with Sens. Orrin G. Hatch, R-Utah, and Nancy L. Kassebaum, R-Kan., to develop alternative legislation before the bill hits the Senate floor.

The Metzenbaum bill would restore a 20-year-old standard set by the Age Discrimination in Employment Act of 1967. This rule requires employers to offer employees equal benefits unless age-based reductions are justified by the increased cost of providing benefits to older workers. The standard was overturned in a June 23 Supreme Court ruling, Public Employees Retirement System of Ohio vs. Betts (*Pensions & Investments*, July 10).

The proposed legislation would re-establish the equal cost rule. But employers believe it would go even further by barring integration of severance and pension benefits for workers who are eligible for retire-

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Flex plan change going smoothly

By Leonard J. Hollie

Many employers have overcome their initial anxiety about new rules governing flexible spending accounts but are monitoring their plans to see if changes may be needed.

"Section 89 had us worried to death that we would have to make changes just after we introduced the plan," said Martin Shields, Staten Island University Hospital's senior vice president for human resources. "But our plan was non-discriminatory to begin with and we have no regulatory headaches."

The New York hospital has 3,000 employees, 1,300 of whom are covered under the flexible benefit program first implemented in March 1989.

A flexible benefit plan is a program under Section 125 of the Internal Revenue Code that offers employees the choice between taxable benefits, including cash, and non-taxable benefits, such as health and life insurance and vacation pay. The plans have been very popular with employers and employees.

Flexible spending accounts, which are non-taxable, were affected by new regulations Jan. 1. Under the new rules, money to pay individual employee claims no longer was limited by the amount contributed to the employee spending plan; employers became responsible for the entire amount.

"Our first thought was that this rule change was going to put the university in the insurance business," said Frank Kellner, director of benefits administration for Johns Hopkins University, Baltimore. The 5-year-old flex plan covers 7,000 of the university's 10,000 employees, with 25% of those covered choosing a spending account.

After studying the university's turnover rates and the type of people who chose spending accounts, Mr. Kellner said he realized the amount of money for which the university would be liable was very small, and it was decided not to make any changes in the plan.

"We are going to monitor the plan closely this year to see how it comes out. If we find that we are susceptible to more risk, we would look at a plan adjustment," he said.

Employers also were concerned about the new rules' adverse affect on cash flow because claims payments cannot be limited to accrued account balances.

If an employee terminates employment early in the year after making a large claim against the account, for example, the employer or the plan would be liable for the costs.

The new regulations also strictly forbid employers from offsetting payment of early claims by adjusting the premium payment schedule based on the amount of claims incurred during the plan year.

"We had one employee who did file a large claim (and) then left," said Robert Taylor, director of compensation for Valero Energy Corp., San Antonio, Texas. "We couldn't withhold that amount from his last check, so we wrote and asked him to return the money, and he did."

Of Valero's 2,000 employees, 1,500 are covered by the flex plan, with 60% of those covered opting for the spending account.

Mr. Taylor, who said he didn't think the rule change was a good idea, said the company decided not to alter the plan, keeping its $5,000 cap on reimbursement.

"We are betting that nothing bad will happen to us under the new rules," he added. "If it does,

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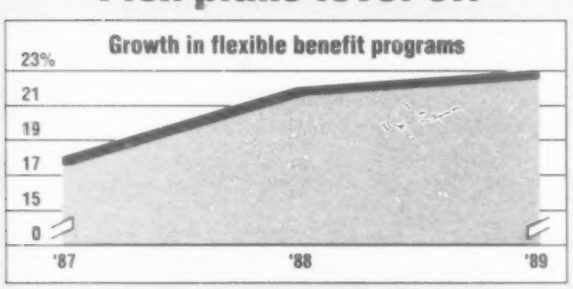
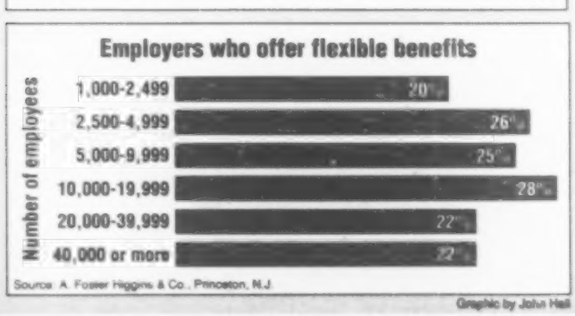
Flex plans level off





Graphic by John Hall

Job-hoppers' benefits at risk

When workers change their jobs, they risk losing some of the value of their retirement income, especially if they take lump-sum payments and fail to reinvest the money properly.

Congress and the Bush administration are taking a hard look at this situation.

Several proposals have been advanced that would permit workers to take their retirement assets with them upon leaving a job, but also would require them to preserve the assets in a tax-qualified plan, such as an individual retirement account.

While much of the debate has focused on making pension benefits "portable," a critical aspect of the issues relates to preservation of benefits, according to some pension experts.

A new study by the Employee Benefit Research Institute, Washington, backs that assertion.

It reveals 34% of workers who took lump-sum payments in 1988 spent the entire amount, while only 11% placed the money in tax-qualified savings programs, annuities or other retirement vehicles.

Workers who made up the 11% tended to be older.

But assets of the 11% accounted for 22% of the $48 billion in lump-sum payments.

A larger grouping — 30% of the 8.5 million lump-sum recipients — put their money into "financial savings," which include such things as tax-qualified savings, regular savings and other financial instruments.

A yet larger group — 59% of the total — transferred the payments to financial savings, home purchase, mortgage payments or other debt payments.

Five percent used the money for some combination of consumption or savings.

The cost of not saving the distributions is substantial.

The average payout would grow from $6,800 per worker to $13,900 under a conservative investment strategy by age 65, or would more than triple to $19,800 under a more aggressive approach, based on historical rates of return.

Assistance is offered

A Buck Consultants Inc. survey found employers increasingly are providing pre-retirement guidance for their employees.

A survey of U.S. companies, government agencies and non-business organizations such as universities and foundations found 38% of 386 organizations offer pre-retirement planning programs.

An additional 31% plan to offer such programs in the future, according to the survey.

The primary reason given for not providing pre-retirement planning programs was the increased burden on staff time, the study found.

Long-term care eyed

As baby boomers head into their 40s, growing importance is being attached to long-term care.

Providing assistance with simple, daily activities is becoming a critical health-care issue, costing the United States about $56 billion in 1987, according to a study by the Washington-based Employee Benefit Research Institute.

Expenditures are bound to increase as the demand for long-term care rises and costs increase, according to the study by Robert M. Friedland, EBRI senior research associate.

Mr. Friedland is on leave to the Pepper Commission, which will address long-term care and other health issues.

Concern about providing long-term care also is building among the general public.

A recent poll conducted by Opinion Research Corp. for the American Council of Life Insurance, Washington, found 56% of those owning permanent life insurance said they probably would have chosen to pay 5% to 10% more to use the policy to cover long-term care expenses if such coverage had been available.

In addition, nearly 40% of those without permanent life insurance said they would be interested in purchasing insurance policies if they included long-term care protection.

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Flexible

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we can always go back and fix it, maybe putting a smaller cap on the plan."

Some employers already have felt the risk is too great to bear under the new plan and have lowered the caps on spending accounts to reduce exposure, said Mr. Kellner, who also is a board member of the Employer's Council on Flexible Compensation, a lobbying organization in Washington.

Ken Feltman, executive director of the employer's council, said most of the 420 members nationwide who have larger plans are adopting a wait-and-see strategy for 1990, while some of those members with smaller plans have reduced their caps.

Mr. Feltman said, however, "We are wondering whether 1990 is a good year to test the new plan since many employees may not be aware of their rights under the new rules. I think 1991 onward would be better, since employees will be more aware and more likely to put in a large claim early in the year."

Although some employers have learned to live with the new rules, reluctance from others may have contributed to a slowdown in the growth of flexible plans in 1989, according to new survey from A. Foster Higgins & Co., a Princeton, N.J.-based employee benefits consulting firm.

The nationwide study of nearly 1,000 employers found flexible benefit plans grew more slowly in 1989 than expected, with 23% of employers offering plans in 1989, vs. 22% in 1988. In 1987, 18% of employers offered such plans.

Despite limited growth, the report points out, employers continue to express strong support for flexible plans, more often citing such concerns as flex administration or communication requirements as a reason for not setting up flex programs. ■